

REPORT  
WASHINGTON PARISH GAS  
UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL

Franklinton, Louisiana

Component Unit Financial Statements  
and Auditor's Reports  
As of and for the Years Ended  
December 31, 2001 and 2000  
with Supplemental Information Schedules

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
Franklinton, Louisiana

Component Unit Financial Statements  
As of and for the Year Ended December 31, 2001  
With Supplemental Information Schedule

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Washington Parish Council  
Board of Commissioners  
Washington Parish Gas  
Utility District No. 2  
Franklinton, Louisiana

Commissioners:

We have audited the accompanying financial statements as listed in the table of contents of the Washington Parish Gas Utility District No. 2, ( a component unit of the Washington Parish Council) as of December 31, 2001 and 2000, and for the years then ended. These financial statements are the responsibility of the District's Board of Commissioners. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Washington Parish Gas Utility District No. 2. The information has been subjected to the auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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In our opinion, the financial statements and supplemental information referred to in the above paragraphs, present fairly, in all material respects, the financial position of the Washington Parish Gas Utility District No. 2 (a component unit of the Washington Parish Council) as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.



Durden and Alonzo  
Certified Public Accountants

June 12, 2002

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Washington Parish Council  
Board of Commissioners  
Washington Parish Gas  
Utility District No. 2  
Franklinton, Louisiana

We have audited the financial statements of the Washington Parish Gas Utility District No. 2 (a component unit of the Washington Parish Council) of and for the years ended December 31, 2001 and December 31, 2000, and have issued our report thereon dated June 12, 2002.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

The Board of Commissioners of the District is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of component unit financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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(continued)

In planning and performing our audit of the financial statements of the Washington Parish Gas Utility District No. 2 for the years ended December 31, 2001 and 2000, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the component unit financial statements.

- Finding:** No segregation of duties, same person handles all phases of cash receipts, and accounts receivable.
- Cause:** Limited office staff. All cash receipts and accounts receivable billing and control are handled by the clerk in the Franklinton office. She takes payments and prepares all bank deposits, and monthly billings for accounts receivable.
- Recommendation:** Due to the limited available work, a complete segregation of duties is impractical. The CPA office reconciles the bank balance each month, and on a random basis counts cash and reconciles the subsidiary accounts receivable balances with the general ledger balance.

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(continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the Washington Parish Gas Utility District No. 2, in a separate letter dated June 12, 2002.

This report is intended for the information of the Board of Commissioners of the Washington Parish Gas Utility District No. 2, the Washington Parish Council, and the State of Louisiana Legislative Auditor. However, this report is a matter of public record, and its distribution is not limited.

  
Durden and Alonzo  
Certified Public Accountants

June 14, 2002

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
LAWS AND REGULATIONS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Washington Parish Council  
Board of Commissioners  
Washington Parish Gas  
Utility District No. 2  
Franklinton, Louisiana

We have audited the financial statements of the Washington Parish Gas Utility District No. 2, a component unit of the Washington Parish Council, as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated June 12, 2002.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

Compliance with laws, regulations, bond indenture provisions, and grants applicable to the Washington Parish Gas Utility District No. 2 is the responsibility of the District's Board of Commissioners. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, and bond indenture provisions. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.



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(continued)

The results of our tests disclose the following instance of non-compliance with laws and regulations:

- (1) Annual budgets were not adopted in a timely manner. The 2001 budget was not adopted until the June 2001 meeting of the board of commissioners, and necessary amendments were not made.
- (2) Collected bank balances in excess of \$100,000 were not adequately insured, by additional pledged collateral from the bank.

We considered these instances of non-compliance in forming our opinion on whether the Washington Parish Gas Utility District No. 2's 2001 component unit financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles, and this report does not affect our report dated June 12, 2002, on those component unit financial statements.

This report is intended for the information of the Board of Commissioners of the Washington Parish Gas Utility District No. 2, the Washington Parish Council, and the State of Louisiana Legislative Auditor. However, the report is a matter of public record and its distribution is not limited.

  
Durden and Alonzo  
Certified Public Accountants

June 14, 2002

## FINANCIAL STATEMENTS

## STATEMENT A

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
Franklinton, Louisiana

## BALANCE SHEET

	2001	2000
<b>ASSETS</b>		
Current assets:		
Cash on hand and in banks	\$ 81,528	\$ 8,515
Accounts receivable-net of allowance for bad debts	71,709	111,054
Unbilled revenue	22,302	31,845
Inventory	34,299	22,358
Prepaid insurance	11,042	4,340
Total current assets	<u>220,880</u>	<u>178,110</u>
Restricted assets:		
Revenue Bonds Reserve Fund	3,641	3,993
Revenue Bonds Contingency Fund	2,371	2,957
Customer's meter deposit fund	45,458	40,385
Bond proceeds deposits-line extension	-	18,398
Litigation claim funds	20,080	40,000
Total restricted assets	<u>71,478</u>	<u>104,733</u>
Property and equipment:		
Gas line system	1,512,523	1,131,623
Gas meters	12,440	12,440
Equipment	44,173	44,178
Construction in progress-line extension	-	380,900
Total property and equipment	1,569,141	1,569,141
Less accumulated depreciation	<u>(804,662)</u>	<u>(751,095)</u>
Net property and equipment	<u>764,479</u>	<u>818,075</u>
Other assets:		
Deferred bond issuance cost	14,148	14,264
Less amortization	<u>(1,082)</u>	<u>(359)</u>
Total other assets	<u>13,066</u>	<u>13,908</u>
Total Assets	<u>\$ 1,069,903</u>	<u>\$ 1,112,828</u>

The accompanying notes are an integral part of this statement

## STATEMENT A

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
Franklinton, Louisiana

## BALANCE SHEET

	<u>2,001</u>	<u>2,000</u>
<u>LIABILITIES AND FUND EQUITY:</u>		
Current Liabilities:		
Accounts payable	\$ 77,556	\$ 93,109
Accrued expenses	3,478	4,399
Current portion of long-term debt	28,908	29,287
Accrued interest payable	-	-
Total current liabilities	<u>109,938</u>	<u>126,795</u>
Current Liabilities-payable from restricted assets:		
Customers' meter deposits	45,468	40,385
Construction payable-line extension	-	15,404
Litigation claim payable	<u>20,000</u>	<u>40,000</u>
Total current liabilities	<u>65,468</u>	<u>95,789</u>
Long-term liabilities:		
USDA Rural Development bonds payable	719,188	745,043
Notes payable-Resource Bank	1,839	5,322
Less current portion	<u>(28,908)</u>	<u>(29,287)</u>
Total long-term liabilities	<u>692,119</u>	<u>721,078</u>
Total liabilities	867,523	943,662
Fund Equity:		
Retained earnings - unreserved and undesignated	<u>202,380</u>	<u>169,164</u>
Total Fund Equity	<u>202,380</u>	<u>169,164</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>1,069,903</u>	<u>1,112,826</u>

The accompanying notes are an integral part of this statement

## STATEMENT B

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
Franklinton, Louisiana

STATEMENT OF REVENUE, EXPENSES AND  
CHANGES IN RETAINED EARNINGS

For the Years Ended December 31,

	2001	2000
Operating revenues:		
Gas sales	\$ 620,522	\$ 490,193
Forfeited discounts	32,196	14,268
Overhead meters and adjustments	(16,062)	(2,932)
Miscellaneous income	2,231	2,868
Total operating revenues	<u>638,887</u>	<u>504,417</u>
Operating expenses:		
Cost of gas sold	344,174	225,142
Line relocation	3,776	-
Bad debt provision	7,600	5,728
General and administrative (Schedule 1)	165,062	135,728
Depreciation	53,596	34,180
Total operating expenses	<u>573,638</u>	<u>405,778</u>
Operating income (loss)	65,249	103,639
Other revenue:		
Interest income	2,825	1,513
Other charges:		
Litigation claim	-	(40,000)
Revenue bond interest	<u>(34,655)</u>	<u>(21,387)</u>
Net income	33,216	43,765
Retained earnings, beginning of year	<u>168,164</u>	<u>125,399</u>
Retained earnings, end of year	<u>\$ 202,380</u>	<u>\$ 169,164</u>

The accompanying notes are an integral part of this statement

## STATEMENT C

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
Franklinton, Louisiana

STATEMENT OF CASH FLOWS  
For Years Ended December 31,

	2001	2000
<b>Cash flows from operating activities:</b>		
Operating Income	\$ 65,249	\$ 103,639
Depreciation	53,596	34,180
Amortization	726	356
(Increase) decrease in accounts receivable	48,888	(53,172)
(Increase) decrease in inventory	(11,943)	8,981
(Increase) decrease in other assets	(6,586)	3,642
Increase (decrease) in accounts payable	(15,553)	(20,295)
Increase (decrease) in accrued liabilities	(923)	1,480
Increase (decrease) in interest payable	-	(10,703)
Net cash provided (used) by operating activities	<u>133,454</u>	<u>68,068</u>
<b>Cash flows from capital and related financing activities</b>		
Funds borrowed	-	109,703
(Increase) decrease in restricted assets	33,437	(10,252)
Payment of litigation claim	(20,000)	-
Principal payments on debt	(28,340)	(16,772)
Transfer of construction funds	(10,505)	-
Interest payments on bonded debt	(34,858)	(42,880)
Interest earnings-reserve & contingency fund	62	38
Payments for capital acquisitions	-	(134,187)
Net cash provided (used) by financing activities	<u>(81,204)</u>	<u>(94,350)</u>
<b>Cash flows from investing activities:</b>		
Interest receipts other than from restricted assets	<u>2,763</u>	<u>1,475</u>
Net cash provided (used) by investing activities	<u>2,763</u>	<u>1,475</u>
<b>Net increase (decrease) in cash and equivalents</b>	75,013	(24,807)
Cash and cash equivalents, beginning of year	<u>6,515</u>	<u>31,322</u>
Cash and cash equivalents, end of year	<u><u>\$ 81,528</u></u>	<u><u>\$ 6,515</u></u>

The accompanying notes are an integral part of this statement

## STATEMENT D

WASHINGTON PARISH BAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
Franklinton, Louisiana

Statement of Revenues, Expenses and Changes in  
Retained Earnings - Budget and Actual

For Year Ended December 31, 2001

	Budget	Actual	Variance
Operating revenues:			
Gas sales	\$445,000	\$620,522	\$175,522
Forfeited discounts	12,000	32,196	20,196
Adjustment/overhead meters	(4,500)	(16,062)	(11,562)
Miscellaneous income	2,900	2,231	(669)
Total operating revenues	<u>455,400</u>	<u>638,887</u>	<u>183,487</u>
Operating deductions:			
Gas purchases	210,000	344,174	(134,174)
Line relocation	-	3,776	
Bad debts	6,000	7,000	(1,000)
General and adm. expense	145,915	165,092	(19,177)
Depreciation	58,000	53,596	4,404
Total operating deductions	<u>419,915</u>	<u>573,638</u>	<u>(149,947)</u>
Operating income	35,485	65,249	33,540
Non-operating items:			
Interest income	1,500	2,825	1,325
Bond interest expense	<u>(24,000)</u>	<u>(34,858)</u>	<u>(10,858)</u>
Net income (loss)	12,985	33,216	24,007
Retained earnings, beginning	<u>169,164</u>	<u>169,164</u>	<u>-</u>
Retained earnings, ending	<u>\$182,149</u>	<u>\$202,380</u>	<u>\$ 24,007</u>

The accompanying notes are an integral part of this statement

## NOTES TO FINANCIAL STATEMENTS



WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

INTRODUCTION

The Washington Parish Gas Utility District No. 2, was created by the Washington Parish Police Jury on July 7, 1972, under provisions authorized by LRS 33:430. The purpose of the district was to build and maintain a natural gas distribution system for the rural area in the western part of Washington Parish. The system serves approximately 1,000 customers over distribution lines of 165 miles.

The accounting and reporting policies of the district are the responsibility of a five-member board (compensated-Schedule 2) appointed by the Washington Parish Council. These accounting and reporting policies conform to generally accepted accounting principles as applicable to enterprise funds of a government entity. Such accounting and reporting procedures also conform to the guides set forth in the Louisiana Municipal Audit and Accounting Guide and to the industry audit guide, Audits of State and Local Governmental Units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying component unit financial statements of the Washington Parish Gas Utility District No. 2 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. REPORTING ENTITY

As the governing authority of the parish, for reporting purposes, the Washington Parish Council is the financial reporting entity for Washington Parish.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

The financial reporting entity consists of (a) the primary government, parish council, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the Washington Parish Council for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
  - a. The ability of the parish council to impose its will on that organization and/or
  - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Parish Council.
2. Organizations for which the parish council does not appoint a voting majority but are fiscally dependent on the Parish Council.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Because the parish council appoints the governing board and has the ability to significantly influence operations, the district was determined to be a component unit of the Washington Parish Council, the financial reporting entity.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

The accompanying financial statements present information only on the funds maintained by the district and do not present information on the parish council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

C. FUND ACCOUNTING

The Washington Parish Gas Utility District No. 2 is organized and operated on a fund basis of accounting whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprises its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that cost (expenses, including depreciation) of providing service on a continuing basis be financed or recovered primarily through user charges.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund is accounted for on a "flow of economic resources" measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The District uses the following practices in recording certain revenue and expenses:

Revenues

All revenues are susceptible to accrual basis of accounting. Gas revenues are billed on a recurring monthly basis, as gas is used by the District's customers. Bills are rendered at the beginning of each month for gas used the previous month. Accounts are primarily collected in the month following use of the gas. Re-connect fees, and installation fees are recorded in the month the service is rendered and collected the following month. Interest income is paid and recorded on a monthly basis. Interest is accrued as earned on those treasury notes.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

Expenses

The district records expenses as they are incurred. Gas purchases are billed monthly and paid the following month. Supplies purchased during the month are normally paid the next month.

E. BUDGET

The proposed budget for 2001 was presented, and adopted at the June, 2001 board meeting. The budget is prepared on the accrual basis of accounting, with additional provision made for bond debt service. The board forwarded a copy of the approved budget to the Washington Parish Council. The board reviews the budget actual comparison on a monthly basis as a part of their management of the system. The 2001 budget was not amended. The 2002 budget was adopted at the December 2001 board meeting.

F. CASH AND CASH EQUIVALENTS

Cash includes unrestricted amounts in demand deposits, interest bearing demand deposits, and money market accounts. The district includes in cash and cash equivalents, amounts in time deposits and those investments in bank certificates of deposits with original maturity of no more than 90 days.

Under state law, the district may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana. These are classified as investments if their original maturity exceed 90 days. Investments are stated at their fair market value.

G. INVENTORIES

The District purchases their estimated monthly gas allotment based on historical analysis. By agreement with El Paso Energy Co., the District is allowed to store any surplus gas in the El Paso Energy Co. facilities. Inventories of gas are valued at lower of cost or market and are expensed using the first-in first-out method.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

H. PREPAID ITEMS

Prepaid items consist of expenses paid in the current year that cover the operations during the next fiscal year.

I. RESTRICTED ASSETS

Bond Reserve and Contingency Funds

The Revenue Bond Reserve Fund and Contingency Fund were established as part of the \$758,000 gas utility revenue bond series 1998 indenture. The Bond Reserve Fund is an investment account where funds are accumulated (\$151 per month) and held in reserve for payment of bonds and interest when the necessary funds would not be available from operating funds. Maximum amount for the Reserve Fund is one year's payments of interest and principle. The Contingency Fund is an investment account where funds are accumulated (\$253 per month) to pay for any emergency repairs or other contingencies that may arise. There is no maximum balance established for this fund. Accumulation of these funds, is to commence upon completion and acceptance of the new distribution line (September 2001).

The funds included as restricted assets are offset in restricted liabilities.

Customer Meter Deposits

Money received for utility deposits paid by new customers is held at various banks in Franklinton, Louisiana. Meter deposits are held by the district, until a customer becomes inactive. The meter deposit is then applied to the accounts receivable balance due and any remainder is refunded to the customer. Current meter deposits are: large commercial \$150, small retail \$120, and homeowner \$100.

Litigation Claim Funds

Money set aside to pay for the settlement of a suit against the District. At the time of the claim the District did not have liability insurance. The board agreed to a settlement of \$40,000 in the case. They have paid \$20,000, and will make an additional \$20,000 payment May 1, 2002.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

J. FIXED ASSETS

Fixed assets of the district are included on the balance sheet of the enterprise fund at historical cost. Interest costs incurred during construction were capitalized. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Gas system	40 years
Gas meters	20 years
Office equipment	10 years
Other equipment	5 years

K. LONG-TERM LIABILITIES

Long-term liabilities are recognized on the balance sheet of the enterprise fund. For the district this is represented by the balance of bonds due and payable after one year.

L. FUND EQUITY

Consist of prior year and current year net income retained by the District.

M. COMPENSATED ABSENCES

All employees of the District earn 10 days of vacation leave each year. Vacation leave must be taken following the year earned. However, upon termination or retirement, employees are paid for any unused vacation leave earned during the current year. All employees earn 1/2 day of sick leave each month during the year. A total of 18 days of sick leave can be accumulated. All accumulated sick leave lapses upon termination. There were no accumulated or vested leave benefits required to be reported, in accordance with GASB Statement No. 16, as of December 31, 2001.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

2. CASH AND CASH EQUIVALENTS

At December 31, 2001, the district has unrestricted cash and cash equivalents (book balances) totaling \$81,528 in demand deposits, and cash on hand.

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are to be held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2001, the District deposits (collected bank balances) in Hibernia National Bank totaled \$100,597. These deposits were secured from risk by \$100,000 of federal deposit insurance. The deposits in excess of \$100,000 are considered un-collateralized (category 3) under the provisions of GASB Statement Number 3.

3. RESTRICTED ASSETS

At December 31, 2001, the District had restricted funds as follows:

	Collected Bank Balances	Book Value
Meter Deposit Funds:		
Demand deposits	\$ 9,339	\$ 6,188
Interest-bearing demand deposits	17,277	17,277
Time deposits (C D's)	22,000	22,000
Reserve and Contingency Funds:		
Interest-bearing demand deposits	6,011	6,011
Litigation Claim Funds:		
Time deposits (C D's)	20,000	20,000

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 1  
OF THE  
WASHINGTON PARISH COUNCIL  
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of customer account balances at December 31, 2001 - \$91,581, less allowance for un-collectible accounts of \$19,872.

5. UNBILLED REVENUE

Unbilled revenue consist of gas consumed between the final meter reading date in December and December 31, 2001, and not billed to customers until the next month.

6. BAD DEBTS

Un-collectible amounts due from customers' receivables are recognized as bad debts at the time information becomes available which would indicate the un-collectibility of the particular receivable. The bad debts are charged off against an allowance account established as an average of the last 3 years charge off's, or the average percentage of charge-offs to sales, whichever is greater.

-	
Allowance account balance 1/01/01	\$ 12,872.
Less current year charge-off	( 0.)
Current year provision	<u>7,000</u>
Allowance account balance 12/31/00	<u>\$ 19,872.</u>



WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

7. FIXED ASSETS

All fixed assets are stated at historical cost. Following is a summary of the activity in the fixed asset accounts for 2001:

	Beginning Balance	Additions	Deletions	Ending Balance
Gas system	\$ 1,131,624	\$ 380,900	\$ -	\$ 1,512,524
Gas meters	12,440	-	-	12,440
Office equipment	9,632	-	-	9,632
Other equipment	34,545	-	-	34,545
New Extension	380,900		380,900	-
Totals	<u>\$ 1,569,141</u>	<u>\$ 380,900</u>	<u>\$ 380,900</u>	<u>\$ 1,569,141</u>

A summary of the accounts and the related accumulated depreciation follows:

	Cost	Accumulated Depreciation	Net
Gas system	\$ 1,512,524	\$ 778,904	\$ 733,620
Gas meters	12,440	9,631	2,809
Office equipment	9,632	5,569	4,063
Other equipment	34,545	10,558	23,987
New line extension	-	-	-
Totals	<u>\$ 1,569,141</u>	<u>\$ 804,662</u>	<u>\$ 764,479</u>

The Board of Commissioners elected to capitalize interest during the construction period of the new line extension. Capitalized interest in the amount of \$10,789 is included in the cost of the new line extension, which has now been included in the Gas System account.

Depreciation is computed on a straight-line basis for financial statement purposes.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

8. USDA RURAL DEVELOPMENT BONDS

The current balance of \$719,186 of par value Gas Utility Revenue Bonds series 1998 dated June 1, 1999 were issued on behalf of the District for the purpose of constructing and acquiring improvements, extensions, and replacements to their gas utility system and to retire the old bond debt (\$376,126). The funds were advanced over a period from June 1999-October 2000, and totaled \$758,000. The bond debt, consist of one bond payable to the USDA Rural Development. Payments of \$5,056 commenced July 2000, and include interest at the rate of 4.75% per annum payable over twenty years. In addition to the monthly payment, of the bonded debt, the District is to make monthly payments to a reserve fund (\$151), and a contingency fund (\$253); commencing upon date of completion and acceptance of the extension project. Since monthly payments commenced July 2000 and have been paid each month through December 2001, there will be no interest accrual on this loan. Following is a schedule of future debt payments on these bonds:

Year	Principle	Interest	Total
2002	27,067	33,605	60,672
2003	28,381	32,291	60,672
2004	29,759	30,913	60,672
2005	31,204	29,468	60,672
2006	32,719	27,953	60,672
2007	34,307	26,365	60,672
2008	35,973	24,699	60,672
2009	37,719	22,953	60,672
2010	39,551	21,121	60,672
2011	41,471	19,201	60,672
2012	43,484	17,188	60,672
2013	45,595	15,077	60,672
2014	47,808	12,864	60,672
2015	50,130	10,542	60,672
2016	52,563	8,109	60,672
2017	55,115	5,557	60,672
2018	57,791	2,881	60,672
2019	28,549	896	29,447
Totals	<u>\$ 719,186</u>	<u>\$ 324,240</u>	<u>\$ 849,408</u>

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

9. NOTES PAYABLE-RESOURCE BANK

The \$1,839 balance represents funds, borrowed (\$10,000) from Resource Bank, Franklinton, La, to purchase a truck, computer, computer software, and billing supplies. This is an installment note dated June 18, 1999. The note is payable at \$317 per month including interest at 8.5% per annum. Following is a list of future debt payments:

Year	Principle	Interest	Total
2002	\$ 1,839	\$ 61	1,935

10. LITIGATION AND CLAIMS

As of December 31, 2001, the District has been named as defendant in one lawsuit:

Magee lawsuit- The District's attorney has stated that he feels this case does not appear to have any merit. However, the District did not have liability insurance at the time of this claim and they could incur some legal expenses in this case.

11. LEASES

The District does not have any items under a capital or operating lease at December 31, 2001.

12. ON-BEHALF PAYMENTS

Certain operating expenditures, of the District, are paid by the Washington Parish Council. The District's office is located in a building leased by the Council. The Council pays the rent and utilities on the building (office space approximately 80 square feet). These expenditures are not reflected in the accompanying financial statements.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

13. SUBSEQUENT EVENTS

The final payment on the settlement of the Knight lawsuit (see note H) was paid May 30, 2002.

## SUPPLEMENTAL INFORMATION

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH COUNCIL  
Franklinton, Louisiana

GENERAL AND ADMINISTRATIVE EXPENSES

For the Years Ended December 31,

	<u>2001</u>	<u>2000</u>
Salaries	\$ 58,541	\$ 50,110
Payroll taxes	4,547	3,543
Accounting services	6,775	6,825
Advertising	109	-
Legal fees	11,927	3,663
Board of Commissioners expense	6,371	5,721
Paying agent fees	695	600
Operating interest	275	673
Insurance	25,618	26,143
Warehouse rent	600	750
Supplies and expense-office	5,241	4,293
Supplies and expense-gas line	14,639	10,578
Repairs and maintenance	10,525	6,344
Leak survey	6,760	-
Telephone	3,219	2,414
Training	200	-
Truck expense	4,890	8,074
One-call concept	889	700
Severance taxes	2,889	2,744
Amortization of bond issuance cost	726	356
Miscellaneous	<u>1,656</u>	<u>2,197</u>
Total	<u>\$ 165,092</u>	<u>\$ 135,728</u>

See auditor's report

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2  
OF THE  
WASHINGTON PARISH POLICE JURY  
FRANKLINTON, LOUISIANA

BOARD OF COMMISSIONERS COMPENSATION

For the Year Ended December 31, 2001

The Board of Commissioners of the district, consist of five members appointed by the Washington Parish Government. The following schedule of compensation paid to board members is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Compensation did not exceed provisions of R.S. 33:4305.8.[1].

	<u>Meetings</u>	<u>Board Fees</u>	<u>Travel</u>	<u>Total</u>
Will Smith Jr.	12	\$ 900	\$ 259	\$ 1,159
Ralph Riley	12	900	798	1,696
George McKenzie	12	900	691	1,591
Joe H. Davis	12	900	83	983
Charlie Bowlin	12	900	42	942
Totals		<u>\$4,500</u>	<u>\$1,871</u>	<u>\$ 6,371</u>

The Commissioners are appointed to the following terms as of January 1, 2002:

George McKenzie	1 year
Charlie Bowlin	2 years
Earl Forrest	3 years
Joe Davis	4 years
Will Smith	5 years

Mr. Ralph Riley resigned at the end of his term December 31, 2001, and Mr. Earl Forrest was appointed to replace him.

Re-appointments are made each January for the member whose term expires.

MANAGEMENT'S CORRECTIVE ACTION PLAN  
AND  
SUMMARY OF PRIOR YEAR FINDINGS



WASHINGTON PARISH GAS UTILITY DISTRICT NO 2  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FISCAL YEAR ENDED DECEMBER 31, 2001

Ref. No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken	Planned Corrective Action/Partial Corrective Action Taken
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Section I-Compliance and Internal Control Report

2000-1	12/31/1974	Lack of separation of duties of the A/R billing and collections	unresolved	Management will continue to require additional checks and balances by the CPA, and other functions as previously explained.
2000-2	12/31/2000	Annual budget not adopted in a timely manner, and necessary amendments were not made	partly resolved	Budget for 2001 not adopted until June 2002. The 2001 budget was not amended. The 2002 budget was adopted December 2001, and board has made notes to their minute book to amend the 2002 budget if necessary at their December meeting.

Section II-Management Letter:

2000-3	12/31/2000	Employee time records not properly approved or verified	resolved	Board member appointed and he approves time records for each pay period. Board member signing p/r checks insures approval is noted prior to signing checks.
2000-4	12/31/2000	Monthly billings mailed at varying times during year	resolved	Procedural manual has not yet been prepared, but bills are mailed on the first of each month.

WASHINGTON PARISH GAS UTILITY DISTRICT NO 2  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FISCAL YEAR ENDED DECEMBER 31, 2001

2000-5	12/31/1999 Bad debt write-offs not removed from the A/R subsidiary ledger and no policy established for collection of delinquent accounts	unresolved	Procedure will be included in the policy and procedural manual and will include examples of written notices to be used.
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WASHINGTON PARISH GAS UTILITY DISTRICT NO 2  
MANAGEMENT'S CORRECTIVE ACTION PLAN  
FOR CURRENT YEAR FINDINGS  
FISCAL YEAR ENDED DECEMBER 31, 2001

Ref. No.	Description of Findings	Corrective Action Planned	Name of Contact Person	Anticipated Completion Date
Section I-Compliance and Internal Control Reports:				
2001-1	No segregation of duties for cash receipts and A/R billing	This will continue to be an unresolved matter of control due to the limited funds available to hire necessary employees to separate the duties entailed in billing and receiving of payments on accounts receivable	Ralph Riley	
2001-2	Budget not amended	Office clerk will make a note in the minute book to be sure and amend the budget if necessary, to insure there are no variances in excess of 5%	Jeanne Jones	July 1, 2002
2001-3	Collected bank balances not adequately insured	We will contact Hibernia National Bank and have them assign us adequate collateral that will more than cover our bank balances in excess of \$100,000.00	Charles Bowlin	May 31, 2002

Section II-Management Letter:

2001-4	Bad debt write-offs not removed from A/R subsidiary ledger, and there were no bad debts written off in 2001 even though over 90-day aging had substantially increased.	Board will review delinquent accounts each month. After three attempts to collect have failed the accounts will be written off. The list of accounts will be made a part of the minutes.	Jeanne Jones	July 1, 2002
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*Durden and Monzo*

CERTIFIED PUBLIC ACCOUNTANTS

833 FIFTH AVENUE  
FRANKLINTON, LOUISIANA 70438  
(504) 539-4413  
FAX (504) 539-4402

*William R. Durden*

*Donna W. Monzo*

June 17, 2002

Board of Commissioners  
Washington Parish Gas  
Utility District No. 2  
Franklinton, Louisiana

Dear Commissioners:

We completed our examination of the books and records of the Washington Parish Gas Utility District No. 2 for the year ended December 31, 2001 and have enclosed five copies of the report. As part of our examination, we examined various procedures and controls established by your office and accounting staff to insure proper reporting of financial transactions and compliance with various laws. There were reported conditions in the enclosed reports, and we have listed below other internal control weaknesses that were not material in nature but we feel you should be made aware of.

Accounts charged off in 1999 and 2000 are still on the accounts receivable subsidiary ledger. Accounts written off should be removed from the current ledger and placed on a separate bad debts ledger. No collection policy is set up to attempt to collect delinquent accounts once they have been cut-off. A policy should be established that would provide written evidence of efforts to collect delinquent accounts with a statement indicating why the account should be written off. Accounts written off should be approved by the board and made a part of the minutes.

Following is additional information for your review and analysis, which we feel will be of benefit for better management of the system.

Gas Losses

The Board should require a written report each month on gas losses, and any large losses during the month should be explained by the serviceman. The Board must establish a procedure to check the daily readings from El Paso Gas' meters, so they will be aware of any large fluctuations in usage indicating a leak in the District's system. In addition when such leaks are noted, the office clerk must notify LMGA immediately of any line leaks in order for LMGA to adjust the monthly invoice.

# Durden and Monzo

CERTIFIED PUBLIC ACCOUNTANTS

830 FIFTH AVENUE  
SHREVEPORT, LOUISIANA 70468  
(504) 835-4411  
FAX (504) 839-4402

*William R. Durden*

*Donna W. Monzo*

Following is a comparison of gas losses for the past five years:

	(MCF'S)	(MCF'S)	(MCF'S)	
1996	55490	47616	7874	14.19%
1997	57361	46403	10958	19.10%
1998	57476	38494	20984	36.51%
1999	47399	40688	6711	14.16%
2000	46975	38490	8485	18.06%
2001	51533	36425	15108	29.32%

During 2001 there were several large leaks that were not repaired for an extended period of time. As you can see it is important to know on a daily basis if there are leaks in your system. During 2001 you have replaced over 60% of your old meters, and established a procedure to review your gas usage on a daily basis. Leaks are now being repaired in a short period of time therefore, you should see a marked improvement in gas loss during the year 2002.

## New Customers

The Board should continue to look for new customers either through new incentive promotions or through line extensions. Listed below for comparative purposes is the customer count at year end and the average customer count per year for the past five years.

	Customers at Year End	Average Number of Customers
1996	970	966
1997	974	954
1998	963	959
1999	967	952
2000	953	952
2001	1150	1059

*Durden and Alonzo*

CERTIFIED PUBLIC ACCOUNTANTS

620 11TH AVENUE  
FRANKLINTON, COLORADO 70458  
(952) 829-4412  
FAX (952) 829-8822

*William R. Durden*

*Donna W. Alonzo*

The average number of customers increased dramatically during 2001. This was due in part to the extension to your distribution line, and also to your efforts to attract new customers. The number of customer, from the end of 2000 to 2001, increased by 197. You can readily see the importance of a continued effort to attract new customers. With the increased customer count your financial condition should continue to improve.

The financial position of the District has greatly improved over the past three years. The new financing allowed for a line extension and increased customer numbers and also allowed you to replace old meters, with improved monitoring of gas usage you should be able to reduce the gas loss experience. These actions should position you to continue the increase in your financial condition.

Very truly yours,

  
Durden & Alonzo, CPA's